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Office of the Legislative Auditor

State of Montana

Report to the Legislature

November 1990

Financial Audit

For the Two Fiscal Years Ended June 30, 1990

Montana Health Facility Authority

Department of Commerce

We issued an unqualified opinion on the financial statements of the authority and our report contains no recommendations. Findings disclosed by our audit, if any, will be reported as part of the biennial audit of the Department of Commerce.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Helena, MT 59620

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

November 1990

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the two fiscal years ended June 30, 1990. We performed the audit solely to express an opinion on the authority's financial statements. Any findings disclosed by our audit were discussed with management and will be appropriately reported as part of our biennial audit of the Department of Commerce.

We would like to thank the administrator, his staff and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial Audit
For the Two Fiscal Years Ended June 30, 1990

Montana Health Facility Authority

Department of Commerce

Members of the audit staff involved in this audit include: Maryrose Beasley, Boyd D. Gackle, John Fine, and Lorry Parriman.

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Appointed and Administrative Officials

Board Members

Mary D. Munger, Chairman
Professor of Nursing
Helena

Sidney K. Brubaker
Banker
Terry

Dr. Amos R. Little, Jr.
Physician
Helena

Dalyce K. Flynn
Health Care Marketing
Townsend

Sandy Johnson
Banker
Fairfield

Gregory L. Hanson
Attorney
Missoula

John Solheim
Hospital Administrator
Glendive

Administrative Staff

Jerry R. Hoover
Administrator

Debra L. McKee
Bond Program Specialist

Introduction

Background

The Montana Health Facility Authority (the Authority) was established by the 1983 Legislature to provide low cost financing of capital expenditures for not-for-profit Montana health institutions. The Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The Authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the Authority's operation is performed by the department's Management Services Division.

The Authority currently administers two programs: the Pooled Loan Program and the Single Project Financing Program. Additional information on amounts and maturity dates of bonds issued under these programs appears in note 3 on pages 10 through 12.

Pooled Loan Program

The Pooled Loan Program provides low interest loans for eligible health institutions to finance or refinance land, buildings, equipment, and improvement costs. Under this program, the Authority issues revenue bonds to establish a pool of funds, the proceeds of which are loaned to qualifying health institutions at interest rates which reflect the amount paid by the Authority on the bonds plus ongoing program expenses.

During the fiscal year, a portion of the proceeds from the 1985 Pooled Loan Program bond issue was available for loans to qualifying health institutions. Outstanding revenue bonds for the 1985 Pool totaled $39,200,000 at June 30, 1990 and $39,300,000 at June 30, 1989, with a maturity date of December 2015. The 1985 bond issue has a provision that allows the Authority to loan principal repayments received from outstanding loan agreements to eligible health facilities for additional capital improvements. All loans issued by the Authority are structured so that repayments can be used to redeem all outstanding bonds in the year 2015. The Authority presently administers 36 loans through this program.

Introduction

In October 1988 the Authority issued revenue bonds under the Community Provider Pooled Loan Program (Series 1988A and 1988B) in the amount of $1,461,000 for eight community providers of services to persons with developmental disabilities. Proceeds of the Series 1988A bonds were used to finance and refinance land, buildings, equipment, and improvement costs. In addition, a portion of the proceeds were used to create a reserve account and to pay a portion of the issuance and insurance costs. Proceeds of the Series 1988B bonds were used to pay the remaining issuance and insurance costs.

Single Project Program

The Single Project Financing Program authorizes tax-exempt financing on a project-by-project basis. Bonds or notes are issued for individual projects under this program. Prior to fiscal year 1988-89, the Authority issued bonds totaling $35,665,000 for five projects ranging from $440,000 to $18,000,000. Interest and other associated costs are paid by the participating institutions.

During fiscal year 1988-89, the Authority issued bonds in the amount of $9,365,000 to advance refund the 1980 City of Helena Revenue Bonds for St. Peter's Community Hospital. The lower interest rate costs will yield a projected annual savings to the hospital of $200,000 and a cumulative savings of $1,400,000.

During fiscal year 1989-90, the Authority issued bonds in the amount of $14,475,000 for Kalispell Regional Hospital to refund outstanding revenue bonds of Flathead County, Montana, pre-pay other outstanding indebtedness of an affiliate of the hospital, to finance and refinance the costs of remodeling and reconstructing the hospital facilities, and to purchase and install items of equipment. Bond proceeds were also used to establish a reserve fund and pay costs of issuance for the 1990 bonds and for the refunding loan prepayments.

Independent Auditor's Report & Agency Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts presented in the statements shown on pages 6 through 13.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
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DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheet of the Montana Health Facility Authority - Enterprise Fund of the state of Montana as of June 30, 1990 and 1989, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Changes in Financial Position for the two fiscal years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Health Facility Authority of the state of Montana as of June 30, 1990 and 1989, and the results of its operations and changes in its financial position for the two years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 22, 1990

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

BALANCE SHEET - ENTERPRISE FUND

JUNE 30, 1990 AND 1989

	1990	1989
ASSETS		
Cash	$ 10,333	$ 58,808
Accounts Receivable	37,879	10,796
Notes Receivable	10,260	11,400
Assets with Trustee	0	138,869
Investments	241,400	0
Prepaid Expense	1,420	216
Fixed Assets (net of accumulated depreciation)	10,536	13,589
Total Assets	$311,828	$233,678
LIABILITIES AND RETAINED EARNINGS		
Liabilities		
Compensated Absences	$ 11,970	$ 14,286
Accounts Payable	11,045	5,026
Total Liabilities	23,015	19,312
Retained Earnings	288,813	214,366
Total Liabilities and Retained Earnings	$311,828	$233,678

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1990 and 1989

	1990	1989
REVENUES		
Fee Income	$184,398	$174,097
Total Revenues	$184,398	$174,097
EXPENSES		
Personal Services	$ 48,702	$ 74,677
Contracted Services	27,785	14,440
Supplies and Materials	1,177	1,175
Communications	5,177	6,953
Travel	10,971	7,596
Rent	1,922	3,256
Repairs and Maintenance	1,141	2,212
Other Expenses	10,269	12,089
Depreciation - Equipment	2,733	2,979
Loss on Sale of Equipment	74	0
Bond Issuance Costs	0	8,055
Total Expenses	$109,951	$133,432
Revenues Over Expenses	74,447	40,665
Retained Earnings Beginning of Period	214,366	173,701
Total Retained Earnings	$288,813	$214,366

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1990 AND 1989

	1990	1989
SOURCES OF CASH		
Operations:		
Revenues Over Expenses	$ 74,447	$ 40,665
Add (deduct) Adjustments to Cash:		
Depreciation	2,733	2,979
Loss on Sale of Equipment	74	426
Increase (Decrease) in Compensated Absences Payable	(2,316)	582
Increase (Decrease) in Accounts Payable	6,019	(5,312)
Decrease (Increase) in Prepaid Expenses	(1,204)	390
Decrease (Increase) in Accounts Receivable	(27,083)	(7,399)
Decrease (Increase) in Notes Receivable	1,140	(11,400)
Cash Provided by Operations	53,810	20,931
Sale of Equipment	821	0
Total Sources of Cash	$ 54,631	$ 20,931
USES OF CASH		
Purchase of Equipment	575	0
Purchase of Investments	241,400	0
Increase (Decrease) of Assets with Trustee	(138,869)	39,820
Total Uses of Cash	$ 103,106	$ 39,820
Net Increase (Decrease) in Cash	$ (48,475)	$(18,889)
Cash at beginning of the year	58,808	77,697
Cash balance at end of year	$ 10,333	$ 58,808

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

For Fiscal Years Ended June 30, 1990 and 1989

1. Authorization

The Montana Health Facility Authority (the Authority) is a quasi-judicial board created by the Montana Legislature in 1983 with health care cost containment as its purpose. In the fulfillment of this purpose, the Authority provides a variety of capital financing and refinancing alternatives to eligible health facilities in Montana. The Authority may, in each biennium, issue bonds and notes in an aggregate principal amount not to exceed $150 million, exclusive of bonds or notes issued to refund its outstanding bonds or notes. Obligations issued by the Authority do not constitute a debt, liability, obligation, or pledge of the faith and credit of the state but are payable solely from the revenues or assets of the health institutions being financed. The Authority is attached to the Montana Department of Commerce for administrative purposes.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Authority's Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in SBAS recorded for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations (a) financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges, or (b) where the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

3. Revenue Bonds and Notes Outstanding

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

The loans, in many instances, are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the

health facilities. In all remaining transactions, loan payments are secured by standby letters of credit from rated banks.

These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof and therefore, are not reflected in the financial statements of the Authority.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Bonds Outstanding at June 30, 1990	Bonds Outstanding at June 30, 1989
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985A	1985-2015	Variable	$39,200,000	$39,300,000
Hospital Facilities Variable Rate Revenue Bonds (Billings Deaconess Hospital Project) Series 1985	1986-2015	Variable	17,800,000	17,900,000
Hospital Facilities Refunding Revenue Bonds (Bozeman Deaconess Foundation Project) Series 1987	1988-2003	Fixed	15,390,000	15,615,000
Health Care Revenue Bond (Community Provider Pooled Loan Program) Series 1988	1988-2003	Fixed	1,377,000	1,461,000
Hospital Facilities Refunding Revenue Bonds (St. Peter's Community Hospital) Series 1989	1989-2010	Fixed	9,160,000	9,365,000
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1990	1990-2010	Fixed	14,475,000	0
Revenue Bonds Outstanding			$97,402,000	$83,641,000

Stated Maturities on Revenue Bonds Payable are as follows:

Year Ended June 30	Fiscal Year 1990	Fiscal Year 1989
1990	$ 0	$ 614,000
1991	612,000	612,000
1992	995,000	645,000
1993	1,060,000	685,000
1994	1,125,000	725,000
1995	1,190,000	765,000
1996-2000	7,950,000	5,340,000
2001-2005	10,700,000	7,005,000
2006-2010	12,745,000	11,835,000
2011-2015	61,025,000	55,415,000
Total	$97,402,000	$83,641,000

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the indenture and investment earnings thereon.

Revenue Notes Payable:

Issue	Due	Interest Rate	June 30, 1990	June 30, 1989
West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note	1987-2004	2% under Bank Floating Rate	$362,969	$375,424
Total			$362,969	$375,424

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. Asset Held by Trustee

The Authority assessed an annual planning service fee on the principal amount of the bonds outstanding on each anniversary date for the Series 1985A Variable Rate Pooled Loan Program. The funds remained in an account held by the trustee. During fiscal year 1989-90 the balance of all funds in the trustee account were deposited in the Short Term Investment Pool with the Board of Investments.

5. **Investments**

Investments are units purchased in the state of Montana's Short Term Investment Pool (STIP) and are reflected at cost which equals market. At June 30, 1990, the Authority owned 2,414 units valued at $100 per unit for a total of $241,400. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements. At June 30, 1990, most securities (approximately 95 percent) were held by the state or its agent in the state's name. The remaining portion (approximately 5 percent) were loaned under a security lending agreement with the state's agent.

6. **Employees' Retirement System**

The Authority employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the state of Montana. Under PERS, the state contributed $3,860 and $2,652 in fiscal year 1988-89 and fiscal year 1989-90, respectively.

7. **Subsequent Event**

On July 1, 1990, the Authority issued revenue bonds under its second Community Provider Pooled Loan Program (Series 1990A and 1990B) in the amount of $5,858,000 for 12 community providers of services to persons with developmental disabilities and mental illness. Proceeds of the Series 1990A bonds were used to finance and refinance land, buildings, equipment, and improvement costs. In addition, a portion of the proceeds were used to create a reserve fund and to pay a portion of issuance costs. Proceeds of the Series 1990B bonds were used to pay the remaining costs of issuance.

Agency Response

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE

STAN STEPHENS, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

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November 7, 1990

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

This correspondence is to inform you that the Authority is pleased with the unqualified opinion issued by your office in connection with the financial statements for the two fiscal years ended June 30, 1990. We very much appreciated the cooperative working relationship between the staff of your office, and the Department of Commerce and the Authority during the audit.

Sincerely,

Jerry R. Hoover
Administrator

JH/sb

Board of Directors: Mary D. Munger, Chairman, Helena

Kent Brubaker, Terry
Dalyce K. Flynn, Townsend
Gregory L. Hanson, Missoula
Sandy Johnson, Fairfield
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John Solheim, Glendive